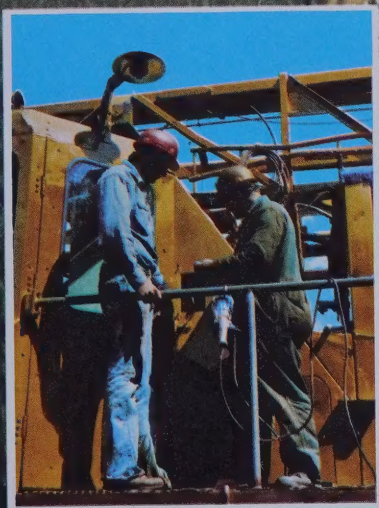


STEEP ROCK IRON MINES LIMITED

annual report

for the year ended December 31, 1975





Hogarth Open Pit looking north-west (Photo by Bob Stark)

THE COVER

Labour is a major resource of any company. A skilled, responsible labour force is as important as plant and equipment in meeting the needs of production.

The cover shows some of the skilled people associated with our mining operation, superimposed on a background of Steep Rock's Lake St. Joseph property, 180 miles north of Atikokan.

Upper left — Danny Curtis, electrician, 26 years' service, repairing a wheel motor from a 100-ton Lectra Haul truck.

Centre — Bill Oddleifson, equipment mechanic, 10 years' service, repairing a wheeled dozer.

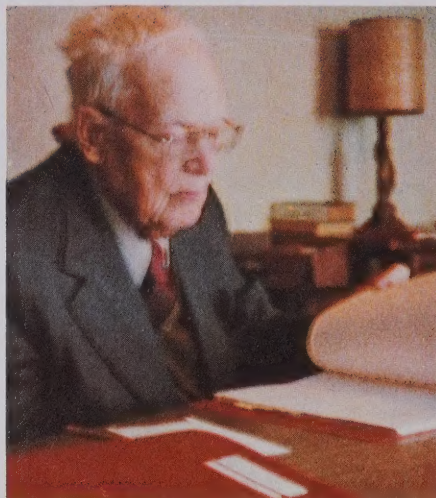
Upper right — Garf Carson, pilot-engineer, experienced northern bush pilot with numerous hours flying personnel on exploration trips and to Steep Rock's Lake St. Joseph property.

Lower left — Ed Chwist (right), field electrician, 26 years' service, and Rick Sekulich, field electrician apprentice, 6 years' service, overhauling electrical system on a 40-R rotary drill used in the open pit.

Lower right — Loraine Tribe, console operator, 11 years' service, preparing reports with IBM System 3 Computer.

ANNUAL MEETING

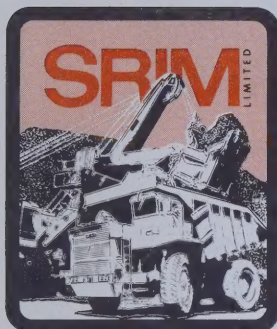
The Annual General Meeting of the Shareholders of Steep Rock Iron Mines Limited will be held at the Head Office of the Company at Atikokan, Ontario, on the 19th day of March, 1976, at 10:00 a.m.



Mark McKee



(Left to right) Senator Bill Benidickson, Dick Hogarth



(Left to right) Ray Jones, Bob Kaiser

BOARD OF DIRECTORS

HON. W. M. BENIDICKSON, P.C.
Ottawa, Ontario
*JOHN A. CAMPBELL, Q.C.
Toronto, Ontario
*NEIL EDMONSTONE, F.C.I.S.
Barrie, Ontario
G. R. HEFFERNAN, P.Eng.
Whitby, Ontario
*R. M. HOGARTH
Toronto, Ontario
*F. RAYMOND JONES, P.Eng.
Atikokan, Ontario
ROBERT L. KAISER
Grosse Pte. Farms, Michigan
LAURENCE J. LAMB, P.Eng.
Atikokan, Ontario
MARK T. McKEE
Oxford, Connecticut
JOHN N. PATERSON
Thunder Bay, Ontario
CLARE E. WHITE, P.Eng.
Victoria, British Columbia
*Member of the Audit Committee

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F. RAYMOND JONES, P.Eng.
President & Chief Executive Officer
LAURENCE J. LAMB, P.Eng.
Senior Vice President
LOUIS ZUCCHIATTI, R.I.A.
Vice President & Treasurer
JOHN A. CAMPBELL, Q.C.
Secretary
JOHN P. DUGGAN, C.A., R.I.A.
Controller & Assistant Secretary

AUDITORS

CLARKSON, GORDON & CO.
Thunder Bay, Ontario

TRANSFER AGENTS

CROWN TRUST COMPANY
Toronto, Ontario
and
CENTRAL NATIONAL BANK OF CLEVELAND
Cleveland, Ohio

GENERAL COUNSEL

JOHN A. CAMPBELL, Q.C.
Toronto, Ontario

CONSULTING GEOLOGIST

M. W. BARTLEY, P.Eng.
Thunder Bay, Ontario

GENERAL MANAGER

BRUCE W. TAYLOR, P.Eng.

DIVISION MANAGERS

ALWYN K. BAYLES, P.Eng., Metallurgical
JOHN P. DUGGAN, C.A., R.I.A., Accounting
G. KENNETH EOLL, Employee Relations
COLIN F. MACIVER, Mining
LEON J. PERRIER, Maintenance & Services

ASSISTANT TO THE PRESIDENT

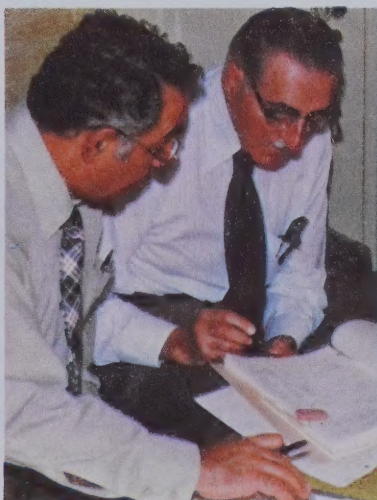
H. EDWIN JACKSON

OPERATIONS AND EXECUTIVE OFFICES

Atikokan, Ontario



Bruce Taylor



(Left to right) Lou Zucchiatti, Neil Edmonstone



(Left to right) Jerry Heffernan, Clare White, Dick Hogarth



Ray Jones, President and Chief Executive Officer



Left, John Paterson, Chairman of the Board
Right, Larry Lamb, Senior Vice President

PRESIDENT'S LETTER TO THE SHAREHOLDERS

A year ago it appeared that 1975 earnings would be greatly improved over previous years. The actual financial results for the year are therefore doubly disappointing. Steep Rock's employees' collective bargaining group was caught up in the 1975 wave of excessive labour demands brought on by galloping inflation. They took strike action on May 18, 1975, when Steep Rock's management did not meet their demands. The strike was not settled until July 22, 1975.

While the loss of production during the strike dealt a severe blow to our 1975 economics, the expensive settlement along with abnormal increases in costs of supplies (notably fuel and electric power) have also made uneconomic any major extension of mining operations in the Hogarth pit beyond 1979. Various plans for limited expansion of the pit are being studied.

Although additional options for extension of operations at Atikokan are being evaluated (earlier access to the "C" orezone now being mined by Caland, transporting of concentrates from other ore sources for processing in our plant, etc.), these alternatives require negotiations with others. No decision to close operations in 1979 has been made, but financial statements for 1975 have been prepared as though this decision had been made. In anticipation of that possibility write-offs previously based on a 1983 termination have been accelerated.

While working capital was decreased by only \$0.33-million, increased provisions for depreciation, depletion, and amortization of deferred development, the increase totalling \$2,837,000, resulted in a LOSS of \$2,874,103 for 1975, compared to NET EARNINGS of \$1,312,513 in 1974.

TOTAL FUNDS FROM OPERATIONS were \$3.90-million (\$5.09-million in 1974). Other income, including \$354,980 from sale of fixed assets, raised total funds generated to \$4.32-million (\$5.64-million in 1974).

WORKING CAPITAL at year-end was \$9.72-million (\$10.05-million for 1974). The balance of "deferred overburden removal" increased \$1.58-million to \$11.83-million at the end of 1975.

PELLET PRODUCTION of 1,113,070 tons was 227,990 tons less than for 1974, mainly due to lost production during the strike. Shipments totalled 1,065,007 tons, of which pellets comprised 1,060,245 tons and red ore 4,762 tons. About 64,000 tons of pellets scheduled for shipment in 1975 were held over for 1976 shipment at the request of the customer.

ORE RESERVES available to Steep Rock in the Hogarth orezone were reduced to 6,553,920 tons. In 1975 a total of 1,261,283 tons were mined. The tonnage involved in the previously proposed Hogarth pit expansion was removed from reserves due to changed economics. The 1.0-million tons carried in the North Roberts orezone were removed from reserves for the same reason. If Caland Ore Company terminates mining operations in the "C" orezone in 1979 as now planned, it is calculated that 16.3-million tons of ore economically extractable by open pit mining will remain, all in the "reasonably assured" category. If Caland's announced plan is implemented, Steep Rock will have access to the "C" orezone in late 1979; however, one to two years will be required to do the advanced stripping necessary to prepare for providing plant feed on a continuous basis. If means can be found to provide continuity of ore supply through 1979 and 1980, then it is probable that Steep Rock can continue mining on an economic basis until "C" orezone reserves are fully recovered.

LAKE ST. JOSEPH

Provincial Government commissions were appointed early in 1975 to study and make recommendations to Government with regard to location of a transportation corridor (railway, pipeline for natural gas, power line) and with regard to location of a townsite suitable for 10,000 people to serve the Lake St. Joseph project and other developments. The commission reports are expected to be submitted late in the first quarter of 1976.

Meanwhile, the softening of the steel market has reduced the urgency of requirement for the proposed pellet production, and it is now doubtful that production from the project will be required as early as previously anticipated.

STAFF CHANGES

In 1975, there were several re-assignments of senior staff.

Laurence J. Lamb was promoted from Vice President and General Manager to Senior Vice President.

Louis Zucchiatti was promoted from Treasurer and Controller to Vice President and Treasurer.

Bruce W. Taylor, who was Acting General Manager, was appointed General Manager.

John P. Duggan, who was Assistant Treasurer and Acting Controller, was appointed Controller and Assistant Secretary.

G. Kenneth Eoll, Employee Relations Manager, retired at year-end.

H. Edwin Jackson, Assistant to the President, was given the additional responsibilities of Employee Relations Manager.

APPRECIATION AND OUTLOOK

With our labour contract settled, we look forward to stable operations in 1976. With some hope that the Canadian Government's anti-inflation program will achieve a measure of success, we can be reasonably confident of improved financial results.

Again, the co-operation and effort of Directors and Officers during the past year is greatly appreciated. Employees who have put forth effort to erase the feeling of antagonism engendered by our long strike are particularly to be commended. It is only by co-operative effort that the problems ahead of us can be surmounted.

February 10, 1976

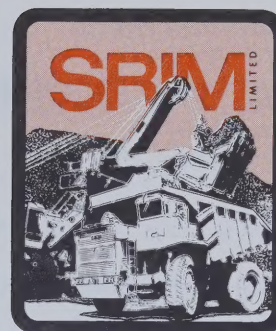
F. R. JONES
PRESIDENT

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1975

(WITH COMPARATIVE FIGURES AS AT DECEMBER 31, 1974)

ASSETS

	1975	1974
CURRENT		
Cash and deposit certificates	\$ 521,453	\$ 492,544
Short-term investments, at cost which approximates market value	5,399,705	6,100,015
Accounts receivable	3,902,830	4,463,834
Ore (finished and in process), at the lower of cost or net realizable value	3,856,791	2,117,103
Supplies at average cost	2,310,255	2,115,954
Prepaid expenses	181,748	151,281
Total current assets	<u>16,172,782</u>	<u>15,440,731</u>
FIXED ASSETS AND HOUSING		
Mining properties at Atikokan (Notes 1(d), 2 and 5)	4,386,393	4,386,393
Less accumulated depletion	3,126,731	2,893,599
	<u>1,259,662</u>	<u>1,492,794</u>
Plant, buildings and equipment, at cost (Notes 1(d) and 2)	51,499,523	52,091,639
Less accumulated depreciation	34,892,022	30,477,221
	<u>16,607,501</u>	<u>21,614,418</u>
Housing		
Properties owned, at cost less accumulated depreciation (1975 — \$494,969; 1974 — \$436,284) (Note 1(d))	661,148	700,823
Mortgages and sale agreements receivable	216,140	277,973
	<u>877,288</u>	<u>978,796</u>
Total fixed assets and housing	<u>18,744,451</u>	<u>24,086,008</u>
OTHER ASSETS AND DEFERRED CHARGES		
Deferred overburden removal costs (Notes 1(d), 2 and 5)	11,825,969	10,248,908
Deferred development expenditures (Notes 1(d), 2 and 5)		
Atikokan	5,847,700	7,001,200
Lake St. Joseph	1,355,130	1,134,025
Investment in other mining companies at cost (Note 6)	231,483	596,784
Sundry	121,823	142,798
	<u>19,382,105</u>	<u>19,123,715</u>
	<u>\$54,299,338</u>	<u>\$58,650,454</u>



LIABILITIES AND SHAREHOLDERS' EQUITY

	1975	1974
CURRENT		
Accounts payable and accrued liabilities	\$ 3,788,706	\$ 2,784,286
Accrued interest	75,076	85,843
Mortgage bond principal due within one year	2,589,787	2,525,578
Total current liabilities	<u>6,453,569</u>	<u>5,395,707</u>
NON-CURRENT		
6% First mortgage sinking fund bonds, Series A, due December 1, 1981 — U.S. \$12,225,000 (excluding 1976 principal instalment of U.S. \$2,548,000 included in current liabilities) (Notes 1(c) and 7)	12,530,625	15,142,325
Mortgages payable on employee housing	116,455	176,028
Provision for termination costs (Notes 2 and 10(b))	157,168	—
	<u>12,804,248</u>	<u>15,318,353</u>
DEFERRED		
Advance payments received on sale of interest in mining properties (Note 5)	255,000	275,770
SHAREHOLDERS' EQUITY		
Capital		
Authorized		
10,000 preference shares of \$100 each		
10,666,666 common shares of \$1 each		
Issued		
8,063,652 common shares	8,063,652	8,063,652
Contributed surplus	3,674,675	3,674,675
Retained earnings (Note 7)	23,048,194	25,922,297
	<u>34,786,521</u>	<u>37,660,624</u>
On behalf of the Board		
N. Edmonstone, Director		
L. J. Lamb, Director	<u>\$54,299,338</u>	<u>\$58,650,454</u>

STEEP ROCK IRON MINES LIMITED
AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31, 1975
(WITH COMPARATIVE FIGURES FOR 1974)

	1975	1974
INCOME		
Gross operating revenues (Note 1(b))	\$22,741,069	\$21,627,486
Royalty income (Note 3)	3,543,336	3,683,159
Investment income	533,433	768,846
Gain on disposal of fixed assets	93,814	6,040
	<u>26,911,652</u>	<u>26,085,531</u>
COSTS AND EXPENSES		
Operating costs, other than those shown below	20,671,304	19,110,338
Administrative and corporate expenses	1,194,803	858,852
Interest on bonds	1,022,361	1,154,384
Depreciation (Note 2)	4,974,760	2,639,264
Depletion (Note 2)	233,132	168,160
Amortization of deferred development expenditures (Note 2)	1,153,500	972,690
Provision for termination costs (Note 2)	157,168	—
Sundry exchange losses (gains)	26,426	(130,670)
	<u>29,433,454</u>	<u>24,773,018</u>
EARNINGS (LOSS) before income taxes and extraordinary items	(2,521,802)	1,312,513
Income taxes (Note 8)	—	510,000
EARNINGS (LOSS) before extraordinary items	(2,521,802)	802,513
EXTRAORDINARY ITEMS		
Write down of investment in other mining company (Note 6)	(352,301)	—
Income tax credit arising from carry forward of prior years' write-offs	—	510,000
NET EARNINGS (LOSS) for the year	<u><u>\$(2,874,103)</u></u>	<u><u>\$ 1,312,513</u></u>
PER SHARE		
Earnings (loss) before extraordinary items	<u><u>\$(0.31)</u></u>	<u><u>\$0.10</u></u>
Net earnings (loss) for the year	<u><u>\$(0.36)</u></u>	<u><u>\$0.16</u></u>

(See accompanying notes to consolidated financial statements)



STEEP ROCK IRON MINES LIMITED
AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1975
(WITH COMPARATIVE FIGURES FOR 1974)

	<u>1975</u>	<u>1974</u>
Balance at beginning of year	\$25,922,297	\$24,609,784
Add net earnings (loss) for the year	(2,874,103)	1,312,513
Balance at end of year	<u>\$23,048,194</u>	<u>\$25,922,297</u>

(See accompanying notes to consolidated financial statements)



Cheryl Alexiuk, Truck Driver, on a 100-ton Lectra Haul truck in the open pit

(Photo by Margaret Teel)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1975
(WITH COMPARATIVE FIGURES FOR 1974)

	1975	1974
SOURCE OF FUNDS		
From operations		
Earnings (loss) before income taxes and extraordinary items	\$(2,521,802)	\$ 1,312,513
Add (deduct) items not affecting working capital		
Depreciation	4,974,760	2,639,264
Depletion	233,132	168,160
Amortization of deferred development expenditures	1,153,500	972,690
Gain on disposal of fixed assets	(93,814)	(6,040)
Provision for termination costs	157,168	—
Total funds from operations	3,902,944	5,086,587
Repayment of advances to other mining companies	13,000	—
Sale of fixed assets	354,980	421,414
Payment received on sale of interest in mining properties	—	50,000
Decrease in mortgages and sale agreements receivable	52,753	79,134
	<u>4,323,677</u>	<u>5,637,135</u>
APPLICATION OF FUNDS		
Development expenditures — Lake St. Joseph (net of amounts received from potential participants)	241,875	301,050
Additions to fixed assets and housing	180,254	201,100
Net addition to deferred overburden removal costs	1,577,061	2,922,208
Long-term debt paid or included in current liabilities		
Mortgage bonds	2,611,700	2,629,900
Mortgages payable	59,573	59,254
Other	(20,975)	31,324
	<u>4,649,488</u>	<u>6,144,836</u>
Decrease in working capital	(325,811)	(507,701)
Working capital at beginning of year	10,045,024	10,552,725
WORKING CAPITAL at end of year	<u>\$ 9,719,213</u>	<u>\$10,045,024</u>
Changes in components of working capital		
Increase (decrease) in current assets		
Cash	\$ 28,909	\$ (506,969)
Short-term investments	(700,310)	1,178,452
Accounts receivable	(561,004)	533,862
Ore	1,739,688	(2,187,529)
Supplies	194,301	585,262
Prepaid expenses	30,467	(12,649)
	<u>732,051</u>	<u>(409,571)</u>
Decrease (increase) in current liabilities		
Accounts payable and accrued liabilities	(1,004,420)	(123,024)
Accrued interest	10,767	13,174
Mortgage bond principal due within one year	(64,209)	11,720
	<u>(1,057,862)</u>	<u>(98,130)</u>
DECREASE IN WORKING CAPITAL	<u>\$ (325,811)</u>	<u>\$ (507,701)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1975

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The accompanying statements are drawn up on a consolidated basis to include the accounts of the Company and its subsidiaries, Steerola Explorations Limited, Sanjo Iron Mines Limited and Don Park Homesites Limited (all of which are wholly owned).

(b) Statement presentation of joint venture operations

Under agreements entered into in 1965 certain of the Company's open pit ore reserves at Atikokan were leased to a joint venture participant, and the Company was appointed operator to mine and process the ore on the participant's behalf. As in prior years, the 1975 financial statements have been drawn up to reflect in "gross operating revenues" the net proceeds received from the joint venture participant for the ore produced, and in "costs and expenses" the full costs of mining and processing the ore.

(c) Exchange translation

U.S. dollar current assets and current liabilities (including long-term debt maturing within one year) are translated to Canadian dollars on the basis of year-end exchange rates (U.S. \$1 = Can. \$1.0164 at December 31, 1975). Long-term debt (mortgage bonds) has been translated on the basis of U.S. \$1 = Can. \$1.025, this being the rate adopted following the unpegging of the Canadian dollar on May 31, 1970.

(d) Depreciation, depletion and amortization

Depreciation is provided on the straight-line basis at rates designed to write off the cost of the related assets over their estimated useful lives. As explained in Note 2 depreciation charges with respect to plant, buildings and equipment have been accelerated with a view to having the cost of these assets written off by the end of 1979. Housing assets (which are expected to have a continuing value after 1979) are being written off at an annual rate of five per cent.

Depletion of mining properties, and amortization of deferred development expenditures, are provided on the basis of tons of ore produced or royalty paid in relation to the estimated assured and reasonably assured ore reserves from which production or royalty revenue is expected to be received in the period to December 31, 1979. (See Note 2).

Deferred overburden removal costs are charged to production on the basis of tons of ore mined, and at a rate which will amortize such costs over the period to December 31, 1979.

2. UNCERTAINTIES AS TO FUTURE OPERATIONS AT ATIKOKAN

In the published interim consolidated financial statements for the nine month period ending September 30, 1975 it was noted that the Company was in the process of reassessing its future at Atikokan following the expensive July 22 settlement of the strike which began on May 18, and greater than expected increases in power and fuel costs. Because of these factors, as well as the results of a substantial drilling program completed early in 1976 (which were not as favourable as expected), operations based on the ore-zones presently available to Steel Rock appear to be uneconomic after 1979. Future iron ore price increases (if of sufficient magnitude), or earlier than expected access to the ore-zones under lease to Caland Ore Company (see Note 3), could possibly permit extending operations well beyond 1979. In addition the possibility will be studied of transporting concentrates to Atikokan from other ore bodies for pelletizing in the existing plant.

However, because of the uncertainties that now exist with respect to operations after 1979, depreciation, depletion and amortization charges have been accelerated as from January 1, 1975 with a view to having the mining properties, plant and deferred development expenditures at Atikokan written off by the end of 1979, rather than by the end of 1983, which was the basis adopted a year ago. This acceleration had the effect of increasing 1975 charges for depreciation by approximately \$2,390,000, depletion

by approximately \$81,000, and amortization of deferred development expenditures by approximately \$366,000. In addition the Company has commenced making annual provisions (\$157,168 in 1975) to cover certain costs which might arise in 1979 if operations are terminated in that year and which would not be recoverable from sales or other revenues.

The Company's current projections indicate that earnings in the period 1976-1979 should be sufficient to cover these higher write-offs and provisions. These write-offs and provisions will affect reported income but not cash flow. The projections are subject to some uncertainties that have yet to be resolved, i.e. they assume (a) a revised mining, production and termination program that will require discussions with, and the agreement of, the joint venture participant; (b) that future increases in costs will be covered by compensating increases in ore prices; (c) that operations can be maintained continuously during the period 1976-1979, without prolonged interruption from strikes or other causes; and (d) that no further losses will be sustained by the Company as a result of a termination of operations in 1979 other than those that have currently been identified and are being provided for.

3. ROYALTY INCOME

The Company's "C" orezone is leased to Caland Ore Company Limited in consideration for the payment of annual royalties by Caland based on a percentage of the market value of ore produced. The lease agreement specifies a minimum of 2,000,000 tons annually on which royalties shall be payable, which minimum tonnage is subject to further adjustment under certain circumstances as specified in the agreement. The amount of royalty received in 1974 and 1975 was based on the minimum of 2,000,000 tons less adjustments (1975 - 641,818 tons; 1974 - 63,333 tons) for the periods during which Caland's mining operations were suspended as a result of strikes.

The lease may be terminated by Caland on December 31 in any year upon giving at least one year's advance notice; were two years' advance notice to be given the minimum royalty tonnage for the final year of operations would be reduced to 1,000,000 tons. In October 1974 Caland announced that it expected to continue mining operations until 1979, so that royalty revenue is expected to continue until at least that year.

4. ORE SUPPLY PROBLEM

In addition to the joint venture operation referred to in Note 1(b) the Company has contracted to supply 250,000 tons of pellets annually to another customer under a contract which runs to December 31, 1977. The Company has sufficient purchased ore on hand at December 31, 1975 which, when mixed with its remaining stockpiles of low grade ore, should enable it to supply the reduced tonnage of pellets required by the customer for the year 1976. The Company has no assured source of ore at Atikokan to supply more than 50,000 tons of the remaining 250,000 tons of pellets of specified grade called for under the contract for the year 1977. The Company has notified the customer that it will be difficult, if not impossible, to supply contract tonnage in 1977 (other than the 50,000 tons noted above). Pending finalization of arrangements with the customer concerned for the year 1977 it is not possible to determine what losses, if any, may be incurred during the remainder of this contract.

5. MINING PROPERTIES AND RELATED DEFERRED EXPENDITURES

Mining properties at Atikokan are carried at purchase cost of \$2,459,456 plus a valuation adjustment made in 1943 of \$1,926,937, for a total of \$4,386,393. Depletion provided to December 31, 1975 totals \$3,126,731.

Deferred overburden removal costs represent the unamortized balance of stripping costs relating to the joint venture mining operations referred to in Note 1(b). The changes in this account during 1974 and 1975 may be summarized as follows:

	1975	1974
Balance deferred at beginning of year ..	\$10,248,908	\$ 7,326,700
Add stripping expenditures during current year	<u>8,330,428</u>	<u>7,588,327</u>
	18,579,336	14,915,027
Deduct amount charged to production on basis of tons of ore mined	<u>6,753,367</u>	<u>4,666,119</u>
Balance deferred at end of year	<u>\$11,825,969</u>	<u>\$10,248,908</u>

Deferred development expenditures relating to Atikokan operations represent the remaining unamortized balance of pre-production expenditures incurred with respect to the properties presently being mined by the Company and Caland Ore Company Limited. Deferred development expenditures relating to Lake St. Joseph consist of the following:

Purchase cost of claims	\$ 276,711	
Expenditures on exploration, development and feasibility studies		
Expended to December 31, 1967 (and charged to operations)		865,800
Expended during period 1968-1974		1,945,517
Expended in 1975		<u>247,137</u>
Total expenditures to December 31, 1975		3,335,165
Less		
Portion expended and written off prior to December 31, 1967	\$865,800	
Received or receivable from potential participants in project in respect of expenditures to December 31, 1975 ..	869,235	
Payments received for interest acquired by joint venture participant in certain of the Lake St. Joseph properties to December 31, 1975 (see below)	<u>245,000</u>	<u>1,980,035</u>
		<u>\$1,355,130</u>

Under the joint venture arrangements referred to in Note 1(b) the joint venture participant is entitled to acquire eventual ownership of certain of the Company's Lake St. Joseph claims in consideration for \$500,000, the rate of acquisition of such ownership interest being determined by the relationship between the volume of ore shipped under the main contract to any point of time and the total tonnage covered by the contract. The equity interest earned by the joint venture participant to December 31, 1975 under this formula was approximately 49 per cent. Accordingly, of the total sum of \$500,000 (all of which had been received by December 31, 1975), \$245,000 has been credited against the Lake St. Joseph deferred development expenditures, and the remainder is carried on the balance sheet opposite "Advance payments received . . .". The future development of the properties at Lake St. Joseph is dependent on the completion of satisfactory arrangements for production, fuel supply, sales and financing.

6. INVESTMENT IN OTHER MINING COMPANIES

The amount of \$231,483 shown under this balance sheet classification represents the cost of the Company's 11 per cent share interest in International Iron Ores Limited, a company which either directly, or through a subsidiary, holds exploration permits covering certain iron ore deposits on the west side of Ungava Bay. While no substantial development work at the properties has been carried out for some years, discussions with potential production participants are continuing. The recovery of the Company's investment is dependent upon the successful future development of an economic mining operation and the obtaining of adequate financing. The 1974 balance included, in addition, an amount of \$365,301 representing the Company's shareholding in, and advances to, Champlain Mining Corporation, a company that had expected to lease, and carry out the development of, the exploration permits referred to. During 1975 it proved impossible to reach agreement with the other shareholders on the arrangements required and, as a result, this investment, net of \$13,000 repaid by Champlain during the year, has been written off.

7. MORTGAGE BONDS AND DIVIDEND RESTRICTIONS

The trust indenture relating to the first mortgage sinking fund bonds (as amended in 1971 and 1973) requires fixed principal repayments of U.S. \$2,548,000 on December 1 of each year, together with additional principal payments (calculated at the rate of U.S.

\$1.41 per ton) to the extent that shipments of pellets to the joint venture participant in any twelve month period ending September 30 exceeds 1,100,000 tons.

The trust indenture, which contains specific mortgage and floating charge provisions, also imposes certain restrictions on the payment of dividends and the reduction or redemption of capital stock. The effect of such restrictions (which are calculated by reference to consolidated working capital and consolidated net income accumulated since January 1, 1970) would be to restrict the balance of retained earnings available for dividends as at December 31, 1975 to approximately \$1.2-million.

The Anti-Inflation Act and Regulations thereto (see Note 9) will impose further restrictions on dividends. In Steep Rock's case the amount of dividends that could be paid during the year ended October 13, 1976 may not exceed \$328,128 (i.e. 25 per cent of net earnings for the year ended December 31, 1974).

8. INCOME TAXES

In view of its loss position, the Company has no liability for income taxes in respect of the year 1975.

The amount of current and prior years' write-offs remaining for carry forward against future years' income (not subject to any expiry date) is estimated at approximately \$6.0-million.

9. ANTI-INFLATION PROGRAM

Effective October 14, 1975 the Federal Government passed the Anti-Inflation Act and subsequently issued Regulations which are presently scheduled to be in force until December 31, 1978. Under this legislation the Company is subject to mandatory compliance with controls on prices, profit margins, employee compensation and shareholder dividends. The Company does not presently anticipate that the controls on prices and profit margins will adversely affect its revenues. The restrictions on shareholders' dividends are outlined in Note 7.

10. COMMITMENTS AND CONTINGENT LIABILITIES

(a) The unfunded past service pension obligation is estimated at \$602,110 at December 31, 1975. All of this amount relates to the new pension plan negotiated in the Collective Agreement with the Company's unionized employees in 1975, and which replaced the plan previously in effect. The Company intends to charge the related costs against future operations at an annual rate based on a funding period of fifteen years pursuant to the provisions of the Ontario Pension Benefits Act.

(b) Under an agreement dated March 15, 1949 relating to the diversion of the Seine River, the Company is committed to make payments to the Ontario Hydro Electric Power Commission of \$92,357 annually until November 1, 1989. In the event that the Company ceases its operations at Atikokan in 1979 it will enter into negotiations with the Hydro with a view to discontinuing such payments. However, pending completion of such negotiations, the existing liability for payments after 1979 is being covered by the annual provisions referred to in Note 2.

(c) The contingent liability with respect to guarantees of mortgages on employees' housing is estimated at approximately \$74,000. The Company is also committed under certain outstanding sales agreements to repurchase houses in the event of employee termination, the maximum commitment at December 31, 1975 being estimated at approximately \$400,000.

(d) Annual rentals under equipment leases presently in effect amount to \$789,370 in each of the years 1976 and 1977, \$695,500 in 1978, \$392,411 in 1979, \$120,748 in 1980, \$102,258 in each of the years 1981 to 1984 and \$8,522 in 1985. There are no lease commitments extending beyond 1985. In the event of termination of operations in 1979 the Company believes that the disposal or sub-leasing value of the equipment at that time should be as great as the remaining lease payments required. In addition the Company leases its data processing equipment at an annual cost of approximately \$40,000. This lease can be terminated upon 90 days' notice by either party.

The total leasing costs charged against 1975 operations amounted to \$626,549 (\$522,517 in 1974).

11. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

The aggregate direct remuneration of directors and senior officers amounted to \$370,890 in 1975 (\$407,075 in 1974).

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
STEEP ROCK IRON MINES LIMITED

We have examined the consolidated balance sheet of Steep Rock Iron Mines Limited and its subsidiary companies as at December 31, 1975 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

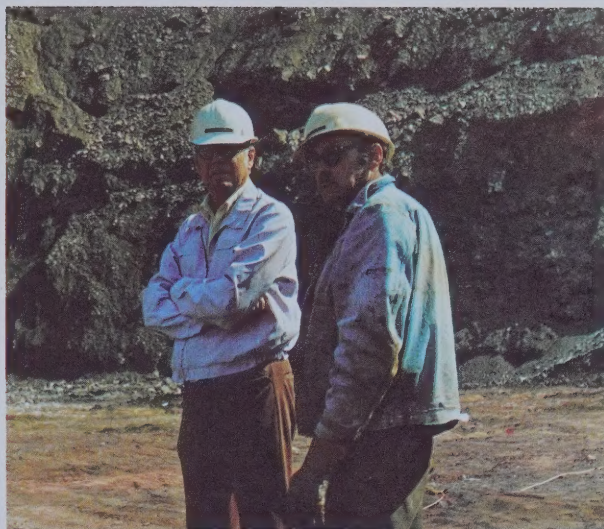
Note 2 to the financial statements refers to the fact that depreciation, depletion and amortization charges have been accelerated, as from January 1, 1975, with a view to having the mining properties, plant and deferred development expenditures at Atikokan written off by the end of 1979, and that the Company has commenced making annual provisions to cover certain costs that may arise in 1979 if operations are terminated in that year. The Company's projections indicate that earnings in the period 1976-1979 should be sufficient to cover the higher write-offs and provisions required in those years, but the projections are subject to a number of uncertainties as referred to in the note. Note 4 refers to a sales contract in respect of which losses might be incurred if satisfactory arrangements cannot be negotiated with the customer concerned for 1977, the final contract year.

In our opinion, subject to (a) the sufficiency of earnings during the years 1976-1979 to cover the higher write-offs and provisions referred to above and (b) the completion of satisfactory arrangements with respect to the sales contract referred to above, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975, and the results of their operations and changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CLARKSON, GORDON & Co.
CHARTERED ACCOUNTANTS

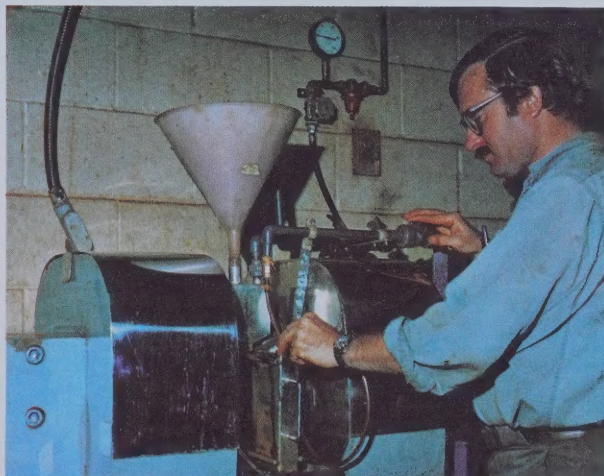
THUNDER BAY, ONTARIO

February 10, 1976



Ed Jackson, Employee Relations Manager, and Horace Gauthier, Senior Pit Foreman, discuss manpower requirements.

(Photo by Margaret Teel)



Ron Dupuis, Metallurgical Technician, adjusts experimental wet magnetic separator
(Photo by Margaret Teel)



Machine Shop,

(Photo by Bob Stark)

10 YEARS IN REVIEW*

	<u>1975</u>	<u>1974</u>	<u>1973</u>	<u>1972</u>	<u>1971</u>	<u>1970</u>	<u>1969</u>	<u>1968</u>	<u>1967</u>	<u>1966</u>
	(Thousands of Dollars)									
Income										
Gross operating revenues	22,741	21,628	19,620	18,730	18,330	17,967	17,624	15,100	8,801	9,150
Royalty income	3,543	3,683	3,335	2,968	4,937	4,935	3,924	4,348	3,950	3,557
Investment income	534	769	563	423	434	480	473	424	310	415
Gain on fixed asset disposals	94	6	76	—	—	—	80	—	—	—
	<u>26,912</u>	<u>26,086</u>	<u>23,594</u>	<u>22,121</u>	<u>23,701</u>	<u>23,382</u>	<u>22,101</u>	<u>19,872</u>	<u>13,061</u>	<u>13,122</u>
Costs and expenses										
Operating costs, etc.	22,051	19,839	18,229	16,247	14,991	14,597	12,554	9,711	6,346	7,280
Interest	1,022	1,154	1,331	1,474	1,707	1,888	2,066	2,168	932	448
Depreciation, depletion and amortizations	6,361	3,780	3,592	3,584	3,789	4,096	4,311	2,685	3,012	2,461
	<u>29,434</u>	<u>24,773</u>	<u>23,152</u>	<u>21,305</u>	<u>20,487</u>	<u>20,581</u>	<u>18,931</u>	<u>14,564</u>	<u>10,290</u>	<u>10,189</u>
Earnings (loss) before income taxes and extraordinary items	(2,522)	1,313	442	816	3,214	2,801	3,170	5,308	2,771	2,933
Income taxes	—	510	—	78	1,145	990	1,304	2,382	1,024	1,111
Earnings (loss) before extraordinary items	<u>(2,522)</u>	<u>803</u>	<u>442</u>	<u>738</u>	<u>2,069</u>	<u>1,811</u>	<u>1,866</u>	<u>2,926</u>	<u>1,747</u>	<u>1,822</u>
Extraordinary items										
Income tax credit arising from carry forward of prior years' write-offs	—	510	48	78	1,145	372	—	—	—	—
Exchange credits less exchange losses (net of related tax)	—	—	—	—	—	1,300	—	—	—	—
Gain (provision for loss) on investments	(352)	—	—	—	—	545	(452)	—	400	(400)
Write-off of land and plant facilities no longer required (net of related tax)	—	—	—	—	—	(483)	—	(217)	—	—
Write-off of deferred development expenditures (net of related tax)	—	—	—	—	—	—	(35,448)	—	—	—
Financing costs	—	—	—	—	—	—	—	—	—	(583)
Special payment received from Ontario Hydro Electric Power Commission (net of related tax)	—	—	291	—	—	—	—	—	—	—
	<u>(352)</u>	<u>510</u>	<u>339</u>	<u>78</u>	<u>1,145</u>	<u>1,734</u>	<u>(35,900)</u>	<u>(217)</u>	<u>400</u>	<u>(983)</u>
Net earnings (loss)	<u>(2,874)</u>	<u>1,313</u>	<u>781</u>	<u>816</u>	<u>3,214</u>	<u>3,545</u>	<u>(34,034)</u>	<u>2,709</u>	<u>2,147</u>	<u>839</u>
Per share										
Earnings (loss) before extraordinary items	(0.31)	0.10	0.05	0.09	0.26	0.22	0.23	0.36	0.22	0.23
Net earnings (loss)	(0.36)	0.16	0.10	0.10	0.40	0.44	(4.22)	0.34	0.27	0.10
Dividends	—	—	—	0.15	0.15	0.15	0.15	0.30	0.30	0.30
Iron ore and pellets										
Tons (000)										
Sales	1,065	1,362	1,442	1,469	1,415	1,501	1,563	1,440	1,004	1,095
Royalty ore	1,358	1,937	2,000	1,922	3,000	3,000	2,225	2,500	2,326	2,083
Total tons	<u>2,423</u>	<u>3,299</u>	<u>3,442</u>	<u>3,391</u>	<u>4,415</u>	<u>4,501</u>	<u>3,788</u>	<u>3,940</u>	<u>3,330</u>	<u>3,178</u>

* 1969 and prior years' results have been restated to give effect to retroactive changes in depletion, depreciation and deferred income taxes and to certain changes in revenue and expense classifications.

Pellet Plant producing iron ore pellets for shipment to steel mills.
(Photo by Bob Stark)



